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Briefing Note 2: Greening Industrial policy in South Africa: insights from China, the United States and the European Union.

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This brief draws on a recent TIPS working paper publication, Greening Industrial Policy in South Africa: Insights from China, the United States and the European Union.

The European Union (EU) Green Deal Industrial Plan, the US Inflation Reduction Act (IRA), and China's 14th Five-Year Plan (FYP) are substantial policies with the potential to significantly influence the transition to greener economies. These policies, while green-focused, are integral to broader strategies aimed at economic and social recovery from the 2020 pandemic and enhancing global competitiveness. They reflect a dual approach. Inwardly, they emphasise sustainable economic growth and strengthening domestic industries, considering socio-economic factors. Outwardly, they focus on maintaining competitiveness and securing international and regional trade opportunities.

These efforts have spurred a competitive drive to invest in green technologies, prompting many countries to adopt similar policies. For instance, South Korea's Korean New Deal aims to fast-track the transition to a digital and eco-friendly economy. Its Green New Deal component focuses on investments in renewable energy, provides subsidies for electric and hydrogen fuel-cell vehicles, supports the green renovation of buildings, and promotes projects integrating digital technologies with green initiatives.

South Africa's economy, characterised by unusually high carbon intensity, faces the dual challenge of meeting climate commitments while pursuing economic growth. Its coal-dominated energy mix makes production processes notably carbon-intensive, putting the country at a competitive disadvantage, especially as border carbon adjustment taxes (notably in the EU) become more common in developed countries. These trade-related climate policies pose significant risks for South Africa and other developing countries.

Green industrialisation presents an opportunity for emerging African states, including South Africa. However, the transitional impact on the South African economy, particularly for workers in carbon-intensive industries, remains a concern. It will require specialised skills and significant changes in production methods across sectors such as energy, transportation, and agriculture. Beyond policy measures, the success of this transition depends on the availability of appropriate institutions, technology, and skills. The issue is especially pressing in regions like Mpumalanga, which has historically been reliant on coal mining and coal-fired power plants, considering that substantial evidence of large-scale green job creation has yet to be demonstrated.

The EU, US, and China are significant players in global climate change efforts, offering valuable lessons for South Africa. These lessons highlight the need for green industrial policies to advance technology, provide financial incentives, and address socio-economic impacts. They stress the importance of engaging stakeholders such as the private sector, local communities, government departments, and labour. Increased investment in infrastructure and capacity building, especially in modernising electricity grids for renewable energy integration, is crucial. Additionally, effective monitoring mechanisms to track progress, address challenges, and ensure accountability are essential. A consistent green industrial policy will be vital for long-term stability, given South Africa's history of inconsistent policy implementation.

While green industrial policy offers promising prospects for a sustainable future, advancing green industrialisation is challenging for emerging economies. Challenges include limited access to green technologies, the need for skills development, and potential employment disruptions. These challenges are particularly acute in economies like South Africa, where industrialisation has historically been rooted in carbon-intensive sectors. South Africa must adopt a pragmatic approach to green industrial policy that aligns with its industrial capacity and considers its unique political-economic and socio-economic conditions.

Key priorities should include:

- Capacity Building: Investing in skills development and training for the workforce in green industries.
- Incentivising Transitions: Supporting existing industries to shift towards sustainable practices.
- Policy Adaptability: Designing flexible frameworks that respond to changing domestic and global conditions.